

WHAT YOU NEED TO KNOW ABOUT THE RULES FOR INHERITED IRAS

The SECURE Act of 2019 made significant changes to the rules around IRAs left to individual beneficiaries or trusts. However, the IRS didn't release final regulations until 2024. To account for the uncertainty this created around certain required minimum distributions (RMDs), penalties for failure to take some RMDs were waived for tax years 2020-2024.

With final regulations in place, many non-spouse beneficiaries of an IRA now need to take RMDs and distribute the account balance by the end of the 10th year following the year of the account owner's death. These new rules generally impact both IRAs left to non-spouse beneficiaries and IRAs left to a trust.

If you inherited an IRA, either directly or through a trust—or currently own an IRA that you might pass on—here is what the laws may mean for you and your heirs.

AN IRA LEFT TO AN INDIVIDUAL

The original SECURE Act, also known as SECURE 1.0, included significant changes to the distribution rules for inherited IRAs.

Under the new rules, individuals named as beneficiaries are either considered Eligible

Designated Beneficiaries (EDB) or Designated Beneficiaries (DB). An EDB includes spouses, children of the original account owner under age 21, someone not more than 10 years younger than the original IRA owner, or a disabled or chronically ill person. A DB includes any individual who is not an EDB (such as adult children, friends, and other family members like nieces, nephews, or grandchildren).

According to the SECURE Act rules, DBs of an IRA must fully distribute the balance by the end of the 10th year following the year of the account owner's death. This 10-year rule applies to both inherited traditional IRAs and inherited Roth IRAs. In addition, if the original owner of the IRA was already taking RMDs, their beneficiaries must continue withdrawals from their inherited IRAs.

DBs are required to take RMDs in years 1 through 9 based on either their own life expectancy or the remaining life expectancy of the deceased account owner, whichever is longer. (Note: If the original account owner hadn't started RMDs yet, the DB can wait until the end of the 10-year period to complete a full distribution.) This is a change from the pre-

SECURE rules, which generally allowed most beneficiaries to "stretch" RMD payments over their own life expectancy.

EDBs are not required to follow the 10-year rule and have more flexibility to stretch inherited assets over their life expectancy. Spouses and minor children also have some unique options. For example, spouses can transfer the money into an IRA in their name and take RMDs based on their own life expectancy. Minor children of the original account owner can take life expectancy distributions through age 21, and then the 10-year rule applies until age 31.

The penalty for not taking an RMD, or for taking less than the required amount, is 25% of the amount not taken on time. The 25% penalty can be reduced to 10% if the missed amount is withdrawn within a certain period.

The final regulations offer some additional clarifications on these rules:

Someone who inherited an IRA in 2020 through 2024 from an account owner who was taking RMDs does not need to make up for missed RMDs and will not be subject to penalties. However, they will have to start taking RMDs in 2025, and the 10-year rule will start with the original year they inherited the account. This means these beneficiaries will take RMDs for less than nine years but will still be

required to withdraw the full balance of their account by the end of their 10 years.

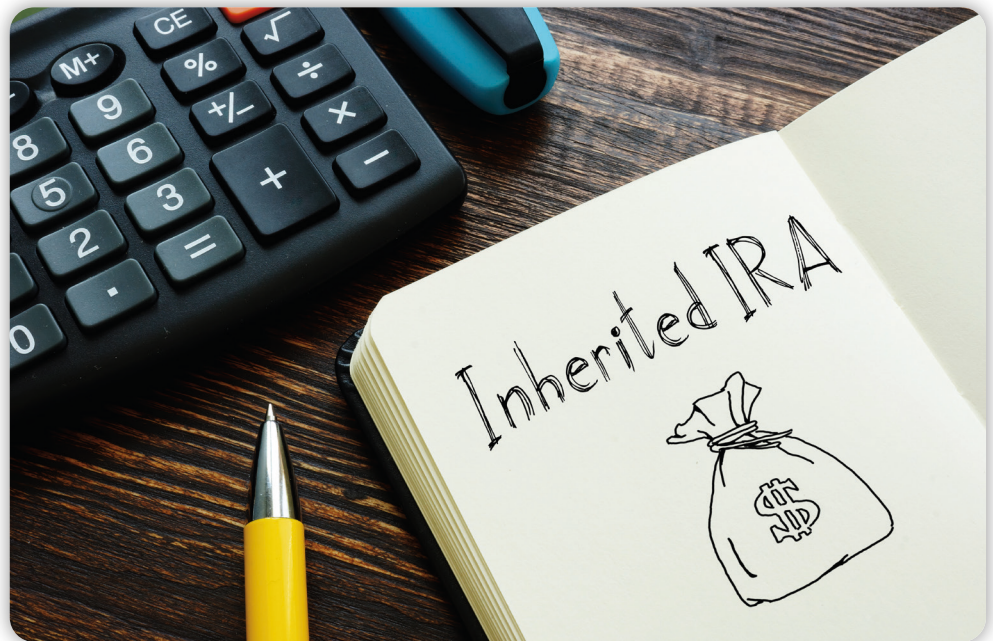
Since there are no RMDs on a Roth IRA, the beneficiary can wait until the end of the 10th year to take a distribution from a Roth (at which point the account must be fully distributed). Since inherited IRA rules can be complex, it can be beneficial to discuss your individual situation with an attorney or tax professional.

AN IRA LEFT TO A TRUST

Investors who wish to pass their retirement accounts to beneficiaries through a trust may work with an estate planning attorney to structure the trust so that its beneficiaries qualify as the investor's designated beneficiaries. How the trust is structured will determine which beneficiaries are relevant in calculating RMDs.

Under the previous rules, when a trust was named as an IRA beneficiary and the trust was properly drafted with the beneficiary designation set up to name a sub trust for each beneficiary, the relevant beneficiary's life expectancy could be used to calculate RMDs for that sub-trust, stretching them over that individual's life expectancy.

...continued on back



CLADIS

INVESTMENT ADVISORY, LLC

180 S 32nd Street West, Suite 1
Billings, MT 59102

*"An investor
without discipline
is not an investor—
he's a gambler."*

- RYAN HOLIDAY

WHAT YOU NEED TO KNOW ABOUT THE RULES FOR INHERITED IRAS

(continued)

Now, a trust can be structured so that if the trust itself is named in a beneficiary designation, RMDs for each beneficiary's sub-trust can be calculated based on the specifics for the relevant beneficiary. However, as with designations to individual beneficiaries, the 10-year distribution rule often applies rather than a life expectancy payout.

"Given these changes, if you are leaving your IRA to an irrevocable trust and have not had your documents reviewed by an attorney since the end of 2019, it is critical that you do so to make sure distributions will be paid in accordance with your wishes," Peterson says.

In light of the act and final regulations, Peterson notes, many attorneys are now suggesting the use of customized beneficiary designations, which can specify multiple beneficiary types and monetary designations.

THE BOTTOM LINE

The new laws around inherited IRAs impacted many

non-spouses who inherited IRAs post-2019, as well as those who may inherit them going forward. If you think your estate plan may include an IRA, make sure to work with an attorney who thoroughly understands the updated rules.

Copyright © 2026 FMeX. All rights reserved. This material was created and distributed by Financial Media Exchange and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no

guarantee of future results. The publisher is not engaged in rendering legal, accounting, or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

**WE HOPE YOU AND YOUR FAMILIES ARE
ENJOYING THE BEAUTIFUL SPRING!**